

Message Text

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PAGE 01 JIDDA 04541 01 OF 02 231552Z

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ACTION SS-14

INFO OCT-01 ISO-00 EB-03 TRSE-00 COME-00 INT-01 LAB-01

NEA-07 NSC-05 NSCE-00 SP-02 DODE-00 OMB-01 L-01 PRS-01

SSO-00 SCA-01 VO-01 CIAE-00 SAM-01 INR-05 /045 W

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P 231425Z JUN 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC PRIORITY 1656

S E C R E T SECTION 1 OF 2 JIDDA 4541

LIMDIS

FOR UNDER SECRETARY ROBINSON

PLEASE PASS TREASURY FOR PARSKY, COMMERCE, INTERIOR, LABOR

E.O. 11652: GDS

TAGS: USSAEC

SUBJECT: JOINT ECONOMIC COMMISSION: PROJECT MANAGEMENT ROLE OF THE
USG

REF: A. JIDDA 4335; B. JIDDA 4337; C. STATE 140872;

D. STATE 135539

SUMMARY: THE EMBASSY IS CONCERNED AT THE APPARENT DECISION
THAT THE US/SAUDI JOINT ECONOMIC COMMISSION WILL NOT ENGAGE IN
PROJECT MANAGEMENT -- IN SAUDI EYES ONE OF THE MOST IMPORTANT
ASPECTS OF THE COMMISSION'S WORK. THE SAUDIS HAVE SEEN HOW
EFFECTIVE SUCH PROGRAM MANAGEMENT CAN BE IN THE MILITARY SECTOR
AND ARE EXPECTING NO LESS FROM THE JOINT COMMISSION. WE DO
NOT BELIEVE THE ARAB BOYCOTT OR VISA PROBLEMS NEED BE A MAJOR
HINDERANCE. WITH PROPER COORDINATION AND A CAREFUL APPROACH
WE SHOULD BE ABLE TO RESOLVE SUCH PROBLEMS, AND HOPE TO SEE
SOME GRADUAL RELAXATION OF SAUDI VISA POLICIES IN GENERAL.
WE URGE THE DEPARTMENT TO INSTITUTE A REVIEW -- WITH
TREASURY, COMMERCE AND OTHER AGENCIES, PERHAPS INCLUDING
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PAGE 02 JIDDA 04541 01 OF 02 231552Z

DOD -- ON THE ADVISABILITY AND MODALITIES OF ACCEPTING

A PROGRAM MANAGEMENT RESPONSIBILITY SOON. END SUMMARY.

1. AS DEPARTMENT AND TREASURY ARE AWARE, WE ARE AT A CROSSROADS IN RELATIONS BETWEEN THE USG, THE JOINT ECONOMIC COMMISSION AND THE SAUDI GOVERNMENT (REFTELS A AND B). THE QUESTION ESSENTIALLY IS WHETHER THE USG IS ABLE TO ASSUME -- IN THE CIVILIAN SECTOR -- A PROJECT MANAGEMENT ROLE IN SAUDI ARABIA. THE QUESTION FIRST AROSE IN REGARD TO BUILDING AND EQUIPING VOCATIONAL TRAINING CENTERS FOR THE MINISTRY OF LABOR. IT WAS RAISED AGAIN BY THE CENTRAL PLANNING OFFICE REGARDING INFRASTRUCTURE DEVELOPMENT IN JUBAYL, AND HOUSING AND PORT CONSTRUCTION.

2. THE EMBASSY BELIEVES THIS PROJECT IMPLEMENTATION OR MANAGEMENT ROLE IS SOMETHING THE SAUDIS HAVE WANTED ALL ALONG. TECHNICAL COOPERATION IS IMPORTANT AND APPRECIATED BUT WE SUSPECT SOME SAG OFFICIALS HAVE ALSO LOOKED AT THE JOINT COMMISSION AS A GIANT ARAMCO THAT WOULD SOLVE MOST OF ITS PROBLEMS, INDEED MAKE MANY OF THE TOUGH DECISIONS. THE SAUDIS, MOREOVER, ALSO INTERPRET ARTICLE 3 OF THE TECHNICAL COOPERATION AGREEMENT AS A FIRM INDICATION THAT THE U.S. GOVERNMENT IS READY TO TAKE AN ACTIVE ROLE IN PROJECT MANAGEMENT ("....PROVIDE TECHNICAL AND PROFESSIONAL SERVICES FOR THE IMPLEMENTATION OF THESE PROJECTS ...").

3. THE USG HAS SO FAR NOT DIMMED SAUDI EXPECTATIONS. FOR INSTANCE, ASSISTANT SECRETARY OF TREASURY PARSKY DISCUSSED WITH THE SAUDIS THE POSSIBILITY OF CREATING A DEVELOPMENT CORPORATION. HE AND OTHER OFFICIALS HAVE PRESENTED A VARIETY OF IDEAS, INFORMALLY, AS TO HOW WE COULD CREATE AN "IMPLEMENTING MECHANISM". IN PRIVATE CONTACTS BETWEEN HIGH LEVEL USG PERSONNEL AND THE SAUDIS, THE U.S. SIDE HAS CONTINUALLY EMPHASIZED WHAT THE USG COULD DO THROUGH THE COMMISSION TO MOBILIZE THE U.S. PRIVATE SECTOR. ALL OF THESE CONTACTS IMPLIED MORE THAN TECHNICAL ASSISTANCE AND/OR A CONCERTED EFFORT TO IMPROVE THE COMMERCIAL CHANNELS WHICH THE USG WOULD

SECRET

SECRET

PAGE 03 JIDDA 04541 01 OF 02 231552Z

NORMALLY USE TO FACILITATE PRIVATE BUSINESS.

4. FROM THE TRAFFIC, ESPECIALLY STATE'S 140872 AND 135539, IT APPEARS THAT THE PRIMARY PROBLEM WASHINGTON SEES IN MOVING INTO PROGRAM MANAGEMENT IS FEAR THAT WE

WILL RUN AFOUL OF THE ARAB BOYCOTT OR OF SAUDI VISA POLICY. WE UNDERSTAND THE DOMESTIC POLITICAL

IMPLICATIONS, BUT FRANKLY WE SEE THIS AS A COP OUT.

5. THE EMBASSY BELIEVES THAT WE CAN SUCCESSFULLY WORK WITHIN THE BOYCOTT AND VISA RESTRICTIONS WITHOUT DAMAGING RESULTS IN THE U.S. OR IN SAUDI ARABIA. IN THE DEFENSE SECTOR THE USG (US MILITARY TRAINING MISSION (USMTM) AND THE CORPS OF ENGINEERS) HAS SUCCESSFULLY MANAGED BILLIONS OF DOLLARS WORTH OF BUSINESS IN SAUDI ARABIA WITH NO SERIOUS PROBLEMS WITH THE BOYCOTT OR VISAS. INTERIOR'S OFFICE OF SALINE WATER ADMINISTERED THE CONSTRUCTION OF JIDDA'S DESALINATION PLANT.

6. A SUCCESSFUL TECHNIQUE FOR THE AWARDED OF BIDS WAS USED BY THE ARMY MATERIAL COMMAND (AMC) IN AWARDED THE BID FOR THE NATIONAL GUARD'S MODERNIZATION. AMC REVIEWED MORE THAN 10 CORPORATIONS' PROPOSALS, AND FINALLY ESTABLISHED A LIST OF 4 -- ALL OF WHICH WERE SATISFACTORY AND WHICH THE USG CONSIDERED COULD DO THE JOB ADEQUATELY FOR A REASONABLE PRICE. THE JOB FINALLY WENT TO VINNELL (AS IS KNOWN), BUT THE CONTRACT IS STILL MANAGED BY AMC. BY FOLLOWING A SIMILAR TECHNIQUE, AND WITH CAREFUL PREPARATION OF EVERY PROJECT, WE BELIEVE MUCH COULD BE DONE DESPITE THE APPARENT OBSTACLES OF BOYCOTT AND VISA RESTRICTIONS. BOTH PRINCE FAHD AND MINISTER OF PETROLEUM YAMANI FURTHERMORE HAVE INDICATED TO THE AMBASSADOR THAT THEY WANT TO SEE RELIGIOUS AFFILIATION REMOVED FROM THE VISA APPLICATION FORM. THE BOYCOTT IS OFTEN TACITLY IGNORED IN THE ARAB WORLD OR USED AS A METHOD OF REJECTING DEALS IN WHICH THE GOVERNMENT HAS NO INTEREST.

7. THE USG HAS MUCH TO GAIN THE SHORT RUN FROM THE SUCCESSFUL OPERATION OF THE JOINT COMMISSION. THE

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PAGE 04 JIDDA 04541 01 OF 02 231552Z

COMMISSION WAS BEGUN IN AN EFFORT TO STRENGTHEN TRADITIONAL TIES BETWEEN THE U.S. AND SAUDI ARABIA. IT WAS TO INCREASE THE SAUDIS'S DEPENDENCE ON THE U.S., AND THUS LESSEN THE LIKELIHOOD THAT THE SAUDIS WOULD MOVE TOWARD OIL BOYCOTT OR PUNITIVE OIL PRICES AS A SOLUTION TO THE MIDDLE EAST PROBLEM. WE ALSO SEE THE COMMISSION AS AN EFFORT TO RECAPTURE MONEY PAID FOR HIGH COST OIL, BY WAY OF A FAVORED POSITION FOR U.S. EXPORTS OF GOODS AND SERVICES. THE COMMISSION SHOULD ALSO SERVE AS A METHOD OF STIMULATING CAPITAL FLOWS TOWARD THE U.S. AND LESS DEVELOPED COUNTRIES. SAUDI ARABIA, WITH ITS LIMITED POPULATION AND ABSORPTIVE CAPACITY, YET WITH MASSIVE POTENTIAL FOR OIL PRODUCTION, IS THE CRUCIAL COUNTRY WITHIN OPEC. IT CAN MAKE OR BREAK ANY OPEC PRICE DECISION, ACCORDING TO ITS WILLINGNESS TO SHUT IN

UP TO 8 MILLION BARRELS PER DAY OF THE PRESENT 11 MILLION
PER DAY CAPACITY.

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PAGE 01 JIDDA 04541 02 OF 02 231559Z

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ACTION SS-14

INFO OCT-01 ISO-00 EB-03 COME-00 TRSE-00 INT-01 LAB-01

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P 231425Z JUN 75

FM AMEMBASSY JIDDA

TO SECSTATE WASHDC PRIORITY 1657

S E C R E T SECTION 2 OF 2 JIDDA 4541

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8. THESE ARE LARGE STAKES. THE EMBASSY DOES NOT BELIEVE THIS IS THE TIME TO BE HESITANT BECAUSE OF POSSIBLE FUTURE PROBLEMS WITH THE BOYCOTT. WE SHOULD INSTEAD PUSH AHEAD TO DO OUR BEST TO MEET SAUDI EXPECTATIONS. ON THE OTHER HAND, AN ATTITUDE OF CONFRONTATION-- INSISTENCE ON RAISING THE QUESTION OF BOTH BOYCOTT AND VISA AT EVERY STAGE OF OUR CONTACT -- IS ALMOST CERTAIN TO RESULT IN A HARDENING OF SAUDI ATTITUDES. THE POTENTIAL BENEFITS FROM THE COMMISSION ARE CERTAINLY NOT LARGE ENOUGH, AT THIS STAGE, TO CONVINCE THE SAUDIS THAT THEY SHOULD GIVE IN -- OVERTLY -- TO U.S. PRESSURE. EVEN IF OBSERVABLE BENEFITS WERE DEMONSTRABLY GREAT AND OF AN IMMEDIATE NATURE. WE CANNOT CONCEIVE OF THE SAUDIS RESPONDING TO SUCH PRESSURE.

9. IT IS ALSO POSSIBLE THAT THE CONTRACT MANAGEMENT SERVICE THE SAG DESIRES IS A PROBLEM TO THE USG BECAUSE OF SHEER MAGNITUDE AND THE TECHNICAL DIFFICULTIES INVOLVED. THE USG DOES HAVE AVAILABLE, HOWEVER, CONSIDERABLE EXPERTISE AND ABILITY IN THIS AREA. IN PARTICULAR, AID'S BUREAU FOR PROJECTS AND MANAGEMENT SERVICES (AA/SER), ITS OFFICE OF ENGINEERING (WITH CONTACT AND

MANAGEMENT ABILITY) AND ITS OFFICE OF HOUSING SHOULD BE
WELL SUITED FOR SUCH A TASK. WE BELIEVE DOLITAC IN THE
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PAGE 02 JIDDA 04541 02 OF 02 231559Z

DEPARTMENT OF LABOR, THE OFFICE OF SALINE WATER IN
INTERIOR AND OTHER DEPARTMENTS AS WELL, COULD BE LOOKED
TO FOR EXPERIENCE AND EXPERTISE.

10. THE KEY FACT TO REMEMBER IN CONSIDERING THE PROGRAM
MANAGEMENT FUNCTION IS THAT THE SAUDIS DESPERATELY NEED --
AND ARE SEARCHING FOR -- A SHORT CUT THROUGH THEIR
HIGHLY CUMBERSOME BUREAUCRATIC PROCEDURES. WE ESTIMATE,
AS AN EXAMPLE, THAT EVEN AFTER A COUNCIL OF MINISTERS'
DECISION TO BUILD NEW PORTS OR INCREASED CAPACITY,
ISSUING OF TENDERS, EVALUATION OF BIDS AND THE COMPLETE
PROCESS UP TO FINAL COMPLETION OF THE NEW FACILITIES
WOULD TAKE A MINIMUM OF 48 MONTHS UNDER CURRENT
REGULATIONS. THE SAUDIS NEED A CHANNEL THROUGH WHICH
THEY CAN IMPLEMENT DECISIONS AND LET CONTRACTS RAPIDLY,
WHILE RETAINING SOME PROTECTION AGAINST EXPLOITATION.
A PRIME EXAMPLE OF WHAT CAN BE DONE IS THE OUTSTANDING
SUCCESS OF THE CORPS OF ENGINEERS IN RESTORING JIDDA'S
WATER SUPPLY IN A REMARKABLY SHORT TIME.
THE COMMISSION'S RESPONSE TO THE SAUDI REQUEST TO
REELECTRIFY RIYADH WILL BE STUDIED AND EVALUATED WITH
SUCH PRECEDENTS IN MIND.

11. THE EMBASSY BELIEVES ENOUGH IS INVOLVED IN SAUDI
ARABIA TO JUSTIFY TAKING ON A PROGRAM MANAGEMENT
RESPONSIBILITY UNDER THE JOINT COMMISSION. IN FACT, WE
BELIEVE FAILURE TO DO SO WILL DAMAGE THE
EFFICACY OF THE COMMISSION, AND MAY REDUCE IT TO LITTLE
MORE THAN A TECHNICAL ASSISTANCE FUNCTION.

ACTION REQUESTED:

WE URGE THE DEPARTMENT TO RECONSIDER THIS MATTER AND TO
BEGIN DISCUSSIONS WITH TREASURY AND COMMERCE IMMEDIATELY.
WE ALSO URGE THAT THE SUBJECT BE TAKEN UP WITH AMBASSADOR
AKINS DURING HIS CONSULTATION IN WASHINGTON.
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